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Strategic Objective: STRENGTHENING OF THE FRAMEWORK OF
SUPPORT TO THE NATIONAL COUNTERDRUG
PROBLEM

STRENGTHENING OF THE INSTITUTIONAL
FRAMEWORK TO SUPPORT THE IMPLEMENTATION
OF THE COUNTERDRUG POLICY

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**Peru Alternative Development Policy Analysis and Support
Task Order**

Quarterly and Final Report: April-June 2005

**Submitted to USAID/Peru
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Development Alternatives Inc.

July 5, 2005

Peru Alternative Development Policy Analysis and Support Task Order

Final Activity Report: April-June 2005

Introduction

Development Alternatives Inc. (DAI) began working for USAID/Peru under the Policy Analysis and Support Task Order in 2002. The overall objective of the Task Order is to enhance the capacity of the Government of Peru to enact and implement policy reform to more effectively manage counter-narcotics issues. A principal Peruvian institutional counterpart for DAI is DEVIDA, the Peruvian national agency responsible for oversight of Peru's anti-narcotics policies, as well as for implementation of the alternative development program. The project has supported DEVIDA in its capacity as the implementing institution for alternative development by providing the staff and technical support for its monitoring and impact evaluation unit and for its environmental assessment unit. DAI, along with Chemonics, also provides communications assistance to enhance popular support for the alternative development program and counter-narcotics policies.

The policy activities of the project, along with the related communications and institutional strengthening activities of the project have supported DEVIDA in its capacity as the designated rector for counter-drug policy. Other key Peruvian government institutions with which the project works include the Peruvian legislature, the Ministry of Interior, the Ministry of Production, ENACO the state enterprise responsible for the commercialization of licit coca, and FONAFE, the government's holding company that owns all state enterprises like ENACO.

DAI has established a network of institutional and individual contractors that undertake a combination of policy, institutional strengthening and communications tasks to support counter-narcotics efforts. They work within and with Peruvian institutions, collaborate with elements of the US Embassy, including NAS, DEA, PAS and other USAID contractors such as Chemonics. Collectively, members of the network meet regularly to analyze current challenges and opportunities and develop proposed strategies to respond.

Results Framework

The principal objective of USAID/Peru, as reflected in its Results Framework, is the Strategic Objective to achieve Sustained Reduction of Illicit Coca Crops in Target Areas of Peru. This Task Order contributes to two of the four Intermediate Results under this Strategic Objective and to the sub-IRs and sub sub-IRs listed hereunder:

IR1 Strengthen the Rule of Law

Sub IR 1.2 Effective Management of Counter-Narcotics Issues

Sub Sub IR1.2.1 Improved Legal and Regulatory Framework for Peru's Counter-Narcotics Program

Sub Sub IR1.2.2 Improved Institutional Capacity for the Implementation of Counter-Narcotics Policy

IR 2 Willingness to Reject Coca Increased

Sub IR 2.1 Ownership of coca-related problems increased

Sub IR 2.2 Awareness of coca-related problems increased

Current Political Context

The country continues to experience organized protests from cocaleros, often in coordination with other agricultural groups with grievances over prices of their product. The government's response to social protests, including road blockages, of which there have been 90 this year with no arrests made, has tended to be to make concessions, which has only encouraged more protests. Cocalero demonstrations against eradication, particularly in the Tocache area have turned violent, with narcotics trafficking organizations providing armed force against eradication units. Although there has been a progressive radicalization of the positions of key cocalero leaders, rivalries for national leadership have prevented the unification of efforts and lessened the potential impact of the protests.

The quarter ended without significant activity in the legislature on the various pro-coca draft bills that have been collecting, but that is unlikely to be the case after the current recess ends in August. On June 30 the Prime Minister announced that the executive planned to send to Congress its own version of a coca law, disregarding advice from many quarters that such an action would precipitate a debate in congress on a coca law in a political environment in which a favorable legislative outcome is all but impossible.

FONAFE's months-long objections to various version of an executive legislative proposal on coca had succeeded in bottling up the proposal in the Presidency of the Council of Ministers until an unexpected move by Cuaresma, the regional president of the department of Cusco. Cuaresma, a member of the governing party's coalition partner FIM, is the only regional president not from an opposition party. To bolster his particularly low levels of popular support, he issued a regional decree legalizing all coca in the traditional coca growing valleys of Cusco. As the regional decree is in open contravention of current national law, it is widely considered to be an unconstitutional usurpation of authority vested in the national government. Nonetheless, the national government's response has been vacillating and conciliatory, much like its approach to the various strikes and protests the government has faced over the last few months. Militant cocalero leaders in other regions have voiced their support for Cuaresma and he for them.

The Cusco decree came out just as the annual UN survey of coca production in Peru was released showing a 22% increase in coca production in Peru and as a report was issued by the Association

of Banks providing a dramatic increase in the estimate of the amount of money laundering and criticizing the ineffectiveness of the GOPs Financial Investigations Unit. The confluence of bad news contributed to the government's decision to make a showing of initiative by issuing its own version of a coca law.

Activities

I. Policy for Control of the Licit Coca Market

Activities during the final quarter

In early June subcontractor DESCO completed the study of the informal or contraband market for traditional uses of coca and subcontractor GRADE completed the study of the formal market, the portion of the licit market in which ENACO is involved. An executive summary synthesizing the two has been prepared for policy makers, along with a proposal for reform of the system of control. AID was given a briefing by the team, based on the reform proposal. Earlier versions of the reform proposal have been used by FONAFE in various meetings in the Presidency of the Council of Ministers (PCM) in the context of debates over coca law proposals prepared by DEVIDA.

A statistical report of coca supply patterns was prepared using the data base developed by consultant Medina. The data base was developed from ENACO data from the *padron de productores* (the registry of "legal" coca producers) and all of its records of purchases and sales. This was combined with the most recent CNC and UN data on the areas in coca production in each department and the productivity figures for each valley. The report clearly shows the failure of the current control system and the extent to which the current *padron* system serves mainly to provide legal cover for producers who provide all or most of their production to narco-traffickers. It also provides a clear indication of where there is some degree of compliance with norms, and thus provides a guide for what producers where should have priority for inclusion within a new control system for the licit market.

At the time of this report, the FONAFE coca supply report has not been formally published in hard copy form. A thousand published copies should be available for distribution to congress, the executive branch, the media and others the second week of July. However it has been distributed to members of the cabinet and select congressman by FONAFE and is currently available on the FONAFE website. In addition, the DAI communications team, particularly Jaime Antesana, came out in the radio, print press and TV with key data from the report as soon as Cuaresma came out with his decree to legalize coca in Cusco. The data clearly showed that much of the coca in the valleys covered by Cuaresma's decree did go to narco-trafficking despite Cuaresma's facile claim that it was all for traditional uses.

A second product from the above analysis was the development of a specific list of producers that can serve as the starting point for a reformed registry of legal producers. DAI was able to develop specific criteria regarding the time period in which the producer must have made sales to ENACO

that would produce a list of producers with the productive capacity approximating the licit demand, as determined by the earlier demand study DAI produced with INEI.

One result so far from the above analyses and recommendations has been the modification of the draft law that DEVIDA has prepared for submission to congress. The draft law now clearly endorses the concept of abolishing the commercial monopoly function of ENACO and replacing it with a regulated private market, as DAI has recommended since the beginning of the year. It also accepts the concept of giving priority for the new producers' registry to those producers who have sold to ENACO during a time frame to be specified in the regulation. What the draft law does not address which has been a central element of the reform concept being worked with FONAFE is how the government plans to control the commercialization of licit coca, and how it plans to verify that all production by producers on the new registry will actually go to licit uses. The DAI-FONAFE proposal is that the key is SUNAT, the tax authority, with its fairly strong institutional capacity, well developed information system, and already existing authority to perform this function.

As of the end of the quarter, efforts by FONAFE to remove the incumbent ENACO board and place a reform-minded board in charge have been resisted by the palace.

Indicative Activities for first quarter of MOBIS follow-on contract

1. The submission to congress by the executive of a proposed coca law will require increased attention to the developments in the Defense and Agriculture commissions of congress as they deliberate on the various coca law proposals. The information generated through the work with FONAFE will be key elements in the advocacy effort. The realistic objective will be to fortify the positions of those in congress that recognize that the best outcome during this electoral period is no new coca law.
2. The FONAFE studies will be widely disseminated and promoted with the media.
3. DAI will work with FONAFE to promote awareness within the executive and congress that with or without a new coca law a control system for the licit market is needed, and that there is no need to wait for a new law to begin the reform process.

II. Precursor Chemical Control

Activities during the final quarter

The process of negotiating the regulation of the precursor chemical control law continued through the quarter, led by DAI advisor to DEVIDA General Zárate. At this writing a full draft has been agreed to by all involved agencies with the exception of one provision regarding which institution, the Ministry of Interior or the Ministry of Production will enter the users in the registry of users. That issue is to be resolved by the Prime Minister before final approval of the regulation.

DAI contracted the former CIO of SUNAT to reexamine the information system proposal developed late last year by subcontractor CHS and work with the inter-ministerial technical to develop a consensus on the configuration and the roles of different institutions. This was in part due to a concern that the earlier design did not take advantage of existing information,

informational processing capabilities and nationwide infrastructure of SUNAT. A modified design utilizing SUNAT capabilities was developed and agreed to by the technical committee and the technical levels of SUNAT. The political level decision from the head of SUNAT is still required to ensure SUNAT participation.

Due to the delay in issuance of the regulation, the planned promotional and educational program for industry and government officials to be conducted by Consultandes had to be dropped from the current contract.

Indicative Activities for first quarter of MOBIS follow-on contract

1. Obtain political level commitment for SUNAT participation in the precursor chemical control information system.
2. Obtain Ministry of Production, Ministry of Interior and DEVIDA commitments for resources and actions needed to implement the precursor chemical law.
3. Assist NAS and GOP counterparts to define NAS assistance needs for the information system and Ministry of Interior operational capacity building.
4. Have Consultandes undertake the postponed educational/promotional program

III. Institutional Strengthening of DEVIDA

Activities during the final quarter

Support for the evaluation and environmental offices of DEVIDA was discontinued prior to the initiation of the quarter, with this support now being funded directly from the USAID grant to DEVIDA.

At the beginning of the quarter DAI had one advisor in DEVIDA, General Zárate who concentrated on DEVIDA's role in coordinating anti-narcotics strategy and operations, a function of the *Control de Oferta* office in DEVIDA. Given his career in the Ministry of Interior and Drug Police, he has brought to DEVIDA an understanding of those institutions and their operations that has been missing in DEVIDA, and the level of interaction and joint analysis and planning has significantly improved at the operational level. Many of his policy oriented recommendations, particularly in terms of a more active policy decision and coordination role by the board of DEVIDA, have not yet been acted upon. As mentioned above, General Zárate took the lead in developing a consensus regulation for precursor chemicals.

Jaime Antesana, a well recognized expert on narcotics trafficking, terrorism and cocalero organizations, began work at the beginning of May as the DEVIDA advisor for the prevention and management of conflict in the coca valleys. At the direction of the president of DEVIDA he visited the contemporary hot spots, particularly the Tocache conflict area, provided advice to the president of DEVIDA on managing the situations, and gave media interviews on the situation. Based in part on the reports by Antesana, the president of DEVIDA made a number of public statements referring to the "liberated zones" of Peru in which the government had no control and virtually no presence. These statements were reportedly not appreciated by the palace, and shortly

thereafter DAI was instructed to remove Antesana as an advisor to DEVIDA. He continues as an advisor to DAI and as a key spokesman on policy issues. He has been the key individual disseminating the statistical information contained in the FONAFE report which has served to expose the false claims of the regional president of Cusco.

Two other DEVIDA advisor positions were planned to be filled during the quarter, but were not. DEVIDA and DAI were unable to agree on the candidate for the legislative advisor position, and the proposed advisor on inter-institutional coordination for alternative development did not accept the salary offer. The CTO then instructed DAI to hold off any further action on these positions until the MOBIS contract and until USAID could clarify its future relationship with DEVIDA.

Indicative Activities for first quarter of MOBIS follow-on contract

1. TBD

IV. Regional Coca Study

Activities during the final quarter

At the end of the quarter the four country studies were submitted for review to the USAID/Peru CTO and the USAID/Columbia economist who has been serving as the de facto CTO. DAI's Colombian consultant has begun working on the regional report, which is to be finalized after the review and approval of the country studies. Following the USAID review of the reports, USAID and DAI will discuss publication and presentation expectations.

Work on this activity beyond the period of this Task Order will be funded by DAI, not from the follow-on MOBIS contract.

V. Money Laundering Control

Activities during the final quarter

The DAI COP met with the Economics Counselor of the Embassy, the Treasury Advisor working with the GOP Financial Investigations Unit (FIU) and USAID to review the current activities of the Treasury Advisor, the status of the FIU and potential DAI assistance areas. A SOW has been developed and a consultant has been identified for an assessment, which will be done under the MOBIS contract.

Indicative Activities for the first quarter of MOBIS follow-on contract

1. Contract the money laundering assessment.

Summary End of Project Status

IR1 Strengthen the Rule of Law

Sub IR 1.2 Effective Management of Counter-Narcotics Issues

Sub Sub IR1.2.1 Improved Legal and Regulatory Framework for Peru's Counter-Narcotics Program

1. Precursor chemical control law passed and regulation prepared for PM's approval.
2. Licit coca demand study completed and results disseminated, with the result that GOP and public accept figure of 9000MT as licit demand which needs to be the target figure for licit supply for any law, regulation or policy.
3. Passage of bad coca law avoided so far. Causality between communications and advocacy efforts, maneuvers by legislative advisors and other activities can only be postulated.
4. Analyses and advocacy efforts regarding the abolishment of the monopoly model for licit control have resulted, so far, in the GOP accepting that reform needs to be based on a new model involving regulation of private commercialization of licit coca.
5. Analyses of the *padron de productores* and the purchase records of ENACO have resulted in GOP consensus that there is a technical means to use this data to develop a new registry that will equate licit supply to licit demand.
6. Model for reform and control of the licit coca market, without new legislation, developed and accepted by FONAFE.

Sub Sub IR1.2.2 Improved Institutional Capacity for the Implementation of Counter-Narcotics Policy

1. Institutional assessment, organizational workshops, and short and long-term technical assistance have resulted in no sustainable institutional strengthening of DEVIDA.
2. Institutional assessments and implementation recommendations developed for organizations involved in precursor chemical control.
3. Model for licit market control system developed based on maximizing use of existing institutional capacity.

IR 2 Willingness to Reject Coca Increased

Sub IR 2.1 Ownership of coca-related problems increased

1. Opinion leader surveys seem to indicate that ownership of coca-related problems has not significantly increased.

Sub IR 2.2 Awareness of coca-related problems increased

1. Public opinion surveys confirm increased awareness of coca-related problems, but that it doesn't translate into increased ownership of the problems.